

# **Section #1**

## **"Region Review"**

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**SECRET & CONFIDENTIAL**

April 19, 1994

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To: ALL WINSTON-SALEM-BASED  
SALES AND MARKETING MANAGERS (AIAP Group)

Subject: **Q1 1994 PERFORMANCE UPDATE**

With one-fourth of '94 already behind us, and given that incentive compensation for all of us is tied directly to our financial (OCC) and marketplace (Share) performance, I'd like to take this opportunity to update all of you on:

1. Where we stand today vs. our objectives.
2. What we need to focus on today to achieve our objectives for '94, and beyond.

**1. WHERE WE STAND TODAY**

RJRT is running slightly ahead (+\$15 million in OCC for Q1) of our plan to achieve \$1.4 billion OCC through Q1. For AIAP managers (70% of bonus opportunity) and SIAP managers (50%) this is great news. There are three reasons for our strong OCC performance to date:

- Full Price Brand Shipments exceeded our first quarter forecast by .6 billion cigarettes.
- DORAL shipments exceeded our Q1 forecast by .6 billion cigarettes. So, though shipments of our lowest price cigarettes were .8 billion short of forecast, we actually made more money in Savings since DORAL is more profitable than Lowest.
- We are all managing to the lower cost levels that we worked hard (and painfully) to achieve.

Our share performance (15% of incentive opportunity for most of you) is mixed. The good news is that through February, we are achieving our two most important short-term objectives:

- **SOFP in February MARLIN was 25.6, holding the same 25.6 we had in December of '93.** (Note: A 25.5 SOFP in MARLIN is equivalent to the 24.5 SOFP share of industry FP consumption goal previously communicated to you. We didn't have the MARLIN data in when the '94 goal was originally set; now we do. A 25.5 SOFP in MARLIN is, as near as we can call it, equivalent to selling 72 billion FP cigarettes in '94, which is the volume target already given to you by Yancey Ford. Our current ship rate is actually greater than 72 billion, and if there is no FET in '94, we should be able to beat this number!)
- **SOS is holding—was 35.6% in February vs. 35.5% in December '93. So, we are achieving our objective of holding SOS.**

However, we are **running behind on our key long-term objectives in Full Price:**

- **CAMEL's SOFP in February was 5.84, up only fractionally vs. the 5.77 that CAMEL has averaged since the price rollback last year. Our +.5 SOFP goal on CAMEL is definitely a stretch objective. We have to beat CAMEL '94 volume forecast by over 1.0 billion units (i.e., sell 73 bil. FP sticks vs. 72) to hit CAMEL's goal. We simply must begin to grow CAMEL's SOFP to achieve earnings objectives after '94—so we need to keep appropriate pressure on CAMEL to begin to make progress against the CAMEL SOFP objective.**
- **WINSTON SELECT slipped from a 1.03 SOM in December '93 to .93 SOM in February. SELECT shipments were also behind our plan by -218 million sticks in Q1. Our 1.1 SOM objective, similar to CAMEL's objective, is definitely a stretch goal. But, with 80% of (base) WINSTON's smokers at 35 years or older, and given the extreme difficulty of getting smokers under 35 years old to switch to WINSTON, we simply have to take some risks to build WINSTON SELECT as our "WINSTON" for the future, as WINSTON's older franchise "ages out." Without WINSTON SELECT, we won't be able to achieve earnings targets after '94.**

RJRT must generate a "Quantum Leap" in SOFP over the next several years to grow earnings. Our two best bets for doing that are CAMEL and WINSTON SELECT. Should we fail to build those brands for the future, we will be in a FP volume/share decline/cost-cutting mode that none of us want to manage. Yes, growing SOFP on these two brands is much harder and much slower than "buying" short-term FP volume on our larger, aging franchise brands. It's harder than holding SOS. But, that is why "disproportionate" resources must be applied behind these two investments.

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All Winston-Salem-based  
Sales and Marketing Managers (AIAP Group)  
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We also need to be mindful of the fact that PM is more aggressive in '94 than we assumed (hoped!) they would be. We have seen that in merchandising already, and we are about to see an aggressive Marlboro drive with heavy promotion in-store presence, and direct marketing under the "Country Store" banner.

## 2. WHAT WE NEED TO FOCUS ON TODAY

As Business Managers, we all have to understand and achieve a tricky balance between short-term and longer-term objectives. Clearly, our paramount objective in '94 is a short term one. We must prove that we can get RJRT earnings (OCC) up, at least to \$1.4 billion in '94. That's why the lion's share of our incentive bonus is based on OCC. As was shown in Q1, we do that by beating our total FP volume forecasts, hitting our 25.5 (Marlin) SOFP objectives, and holding SOS by driving our most profitable brands (DORAL) while staying competitive in Lowest.

The "tricky" part is to set priorities and allocate resources (budget \$\$, display space, etc.) to maximize our odds of achieving all four objectives. We can ill afford to miss our short-term SOFP and SOS objectives. And, we must build two FP brands for our future success.

I am well aware that there is considerable unrest in our organization right now over whether or not we have this balance right. Many are concerned that we have relatively "too much" behind CAMEL (particularly CAMEL Special Lights) and SELECT, and not enough support behind the "big FP volume" (base WINSTON, SALEM, VANTAGE). Others are concerned that we don't have enough (of all the right stuff) to make CAMEL and SELECT grow for the future. Many are concerned that our stretch objectives on CAMEL and SELECT are forcing us to make resource allocation decisions that put "too much" on CAMEL (CSL) and SELECT and not enough on our "big FP volume".

To all of you who are concerned, welcome to the world of "business management"! You are concerned about the right issues! We moved AVPs to Winston-Salem, initiated Co-Planning, moved to Decentralization & Empowerment, share all elements of marketing spending with field sales, and encourage marketing people to spend as much time in the field as is reasonably possible, all for the purpose of achieving a better balance in how we allocate precious brand defense and brand-building resources.

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There is no simple way to resolve this balance of resources issue. Both "Sales" and "Marketing," co-planning as business managers, must work together to develop the right balance, and it will take time for us to get really good at it.

As everyone works together on this, there are a few things that I'd ask you to keep in mind.

- A. Using Objectives as an excuse for making a bad business decision is unacceptable behavior. Too often, whether it's, "I didn't defend Best Value because I was given the objective of doubling distribution on MONARCH," or "I'm using too much PCD space on SELECT or CSL because Jim Schroer wants us to hit a 1.1 SOM on SELECT and a +.5 on CAMEL," there is a tendency to use objectives, or guidelines, as a reason why you are being "forced" to do something you think is wrong. You must understand our objectives, understand why CAMEL and SELECT are so important for the future, understand that hitting our SOFP objective in total is critical to our '94 OCC, and then make the \$ resource or display space allocation you think is right. So, we all must give our best efforts to achieving and beating all four objectives. You will be rewarded more for standing up and doing what you think is right as you strive to hit all four. You will be penalized for hiding behind objectives and guidelines as an excuse for doing something you think is wrong.
- B. Everyone in Sales and Marketing must develop a better understanding of "Offense" (programs to get smokers to switch brands) and "Defense" (Franchise Retention).

We can get more short-term volume with a 30-40¢ off deal on WINSTON than we can on SELECT. But, we know that the WINSTON volume goes right back down after the deal because few, if any, Marlboro smokers, especially those under age 35, will switch to WINSTON. However, on SELECT, despite the fact that many Savings smokers bought SELECT once or twice on our big B1G1F, and they think SELECT is WINSTON's "Generic," some (not enough, yet) Marlboro smokers have actually switched to SELECT because we have a great name, a great product, and we dared to say SELECT is as good as a Marlboro. Those who switched weren't into the cowboy stuff.

In a few months, we are going to try to get some more Marlboro smokers to switch. We are going to give them a reason to believe SELECT is a better product because it has select, aged tobaccos and you "can't rush smooth flavor." We're going to do that with POS, pack inserts, and the message on the carton (not with mega ad bucks). To get them to notice this "product news," and to try SELECT, we will offer a B3G3F. We're trying to avoid the "bottom dwellers" this time by asking for a 3-pack commitment. That may slow down the movement but increase the potential

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switching. So we need to have patience and put this into high potential, long-term switch calls, not drop a B3G3F through Indian outlets to move it fast.

SELECT is a tough, speculative, risky venture with a high potential for failure, and a reasonable chance of success. First we made it different from WINSTON, then as good as Marlboro, this summer—better than Marlboro, and we have plans to give Marlboro smokers more reasons to switch to SELECT in the future—both more product reasons and image reasons. It's slow, it's tough, but it's a better bet to gain switchers from Marlboro than investing to get switchers to (base) WINSTON. The job on WINSTON is to hold the franchise as best we can.

- C. On our "Grow SOFP" Brands (CAMEL & SELECT), "big" switching investments have the best odds of success (rather than a series of little promos). We should pulse "big" promos (e.g., 30-40¢, or B3G3F) when (and only when) we are also giving smokers a reason to switch and stay switched. A series of little deals with no reason to switch is probably a waste of money.

Conversely, a series of small deals (on a franchise defense brand) may help keep smokers in the franchise rather than switch to savings. Said differently, the "\$2.00" guideline on WINSTON makes sense; it does not on SELECT.

- D. The scoring of our four Share Objectives for AIAP is intentionally qualitative. As was outlined to all of you previously, I am going to score (the 15% share portion of the program objectives) for headquarters personnel based on my judgment of how well we performed against all four objectives. Regions will be scored by Yancey Ford and AVPs on whether they contributed positively or negatively to the achievement of our national objectives. Region program scores will be ratioed down, same, or up versus the national program score. There is no mathematical formula for determining how much money is tied to any one of our four objectives. While many of you have set your own objectives, which I applaud, for measuring your own sense of success or failure, your incentive award will be determined as described above. If we were scoring Q1, we'd get approximately a 125 – 150s for hitting SOFP and SOS and 100 for being a little behind on CAMEL and SELECT.

Finally, there are two things I am going to ask you all to do. We want Region Managers to do what they believe is right. We want AVPs to coach and help RSMs do this. We want Brand BUs to give Sales the tools needed to achieve all four objectives. We don't want BUs or AVPs "over-guidelining/instructing" and RSMs feeling under-empowered. Therefore:

- ♦ First thing: Given Marlboro's aggressiveness, and our need to strike a better balance between offense and defense, we are establishing a new Regional "make

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the FP objectives" fund. This \$26 million Q2-Q4 '94 fund (\$1 million for each Region Manager, \$2 million for Yancey Ford to manage with AVPs and National Account Directors for cross-region chains) is for RSMs to use on whatever they decide is most important to achieve FP objectives in their region. You can opt to use this fund to promote any FP brand—you can use it for displays, direct marketing, SME promos, distributor assist, etc. There is only one guideline: use your head and your heart and do what you think is right on your FP business.

- ♦ Second thing: FP Business Unit people, AVPs, and DSOs will make a serious effort to go out into the field and work with RSMs over the next several months as a first step on co-planning FP business strategy and tactics for '95. This effort is not designed to look over an RSM's shoulder or tell him what to do; we've done too much of that. It is designed to 1) help RSMs and their people better understand our short- and long-term objectives and brand strategies; 2) give RSMs "permission" and any help they need to decide what to do in their pursuit of what is right for their specific market; and 3) help Winston-Salem personnel gain a richer, "co-planning" understanding of the unique aspects of each market, so we can achieve a better allocation of all resources and better decentralized, empowered decision-making without "over-guidelining" in 1995:

I hope this lengthy memo is helpful to you. I hope it spurs much discussion and co-planning teamwork. I hope it is another step in the direction of moving all of us to make smart business decisions rather than blind adherence to guidelines.

Most importantly, I hope you all see that we are off to a good start in '94, and we have a great shot at a tremendous year in '94. Three more quarters like Q1 will be good (program score=125), hitting all four objectives would be great (score=150), and beating all four would be truly outstanding (score=200). I'm shooting for 200, and am committed to doing everything we can do to get there. How about you?



James C. Schroer

jh

cc: Mr. J. W. Johnston  
Mr. R. W. Kauffeld, Jr.  
Mr. K. J. Lapiejko

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**1994 Bonus Plan Share Goals**  
**Marlin Consumer Take-away**

Actual		Monthly Goals / will be adjusted									
Jan	Feb	Mar	Apr	May	June	July	Aug.	Sept.	Oct.	Nov	Dec
<b>Full Price Share of Category</b>											
17.17%	17.23%	17.25%	17.25%	17.25%	17.25%	17.25%	17.25%	17.25%	17.25%	17.25%	17.25%
<b>Savings Share of Category</b>											
25.12%	24.14%	24.63%	24.63%	24.63%	24.63%	24.63%	24.63%	24.63%	24.63%	24.63%	24.63%
<b>Winston Select Share of Market</b>											
0.50%	0.54%	0.60%	0.64%	0.62%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%
<b>Camel ex. NF .... share of FP category</b>											
2.58%	2.69%	2.73%	2.76%	2.79%	2.82%	2.85%	2.88%	2.88%	2.88%	2.88%	2.88%

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# **Marlin Consumer Take-away Share** **Customer Base New York Metro Region**

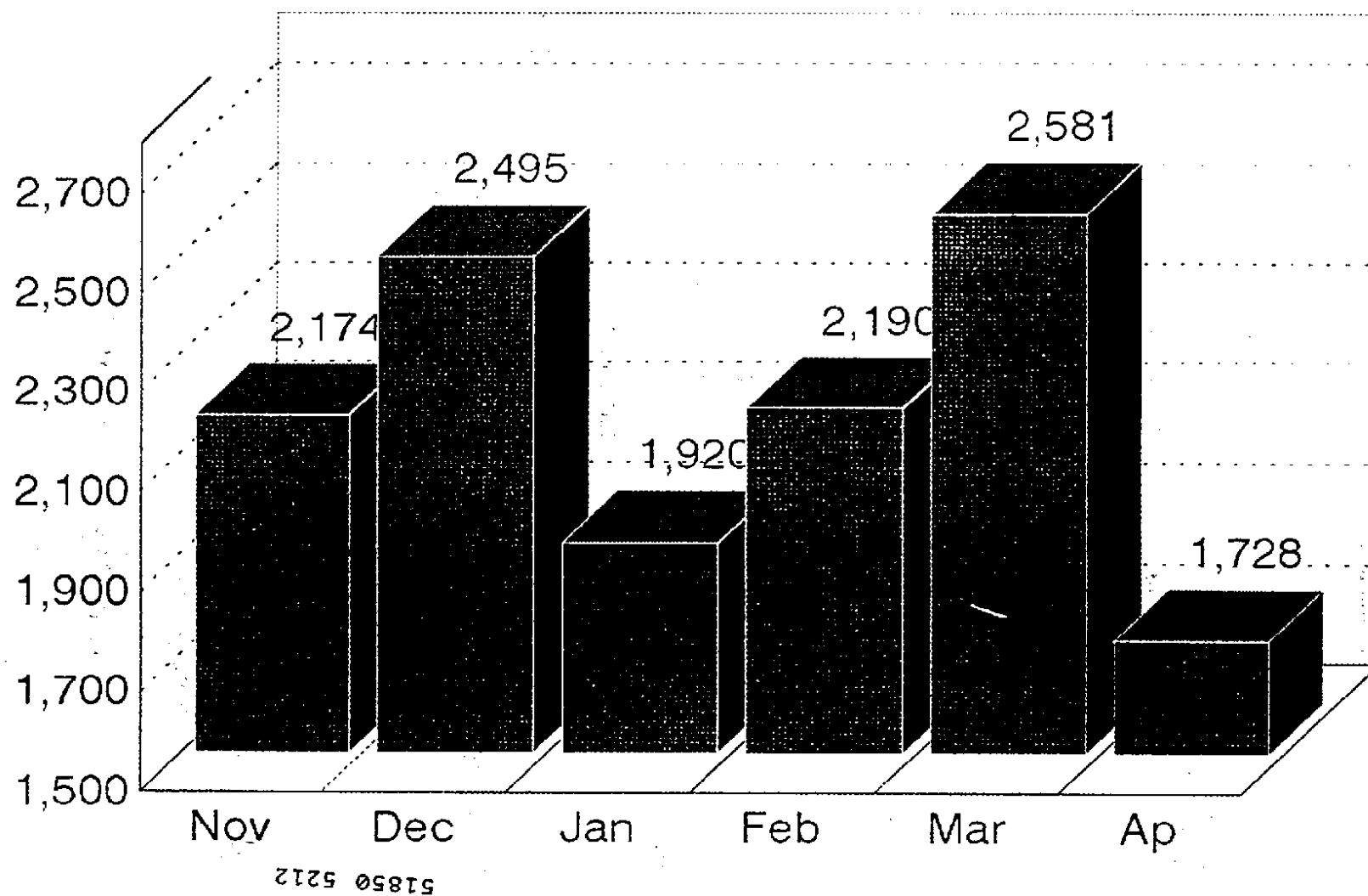
*"Updated May to reflect entire NYM"*

		<u>Stores</u>	
<b><u>Supermarkets</u></b>		<b><u>26</u></b>	
<i>Foodarama</i>	<i>Pathmark</i>		
<i>Village S/R</i>	<i>A &amp; P</i>		
<i>Acme</i>	<i>Kings</i>		
<i>Grand U.</i>	<i>Mayfair F/T</i>		
<i>Welsek F/T</i>	<i>Manyfoods</i>		
<i>Vitale F/T</i>	<i>Davidson F/T</i>		
<i>Independents</i>			
<b><u>Small Foods ..... Independents</u></b>		<b><u>35</u></b>	
<b><u>Drug Stores</u></b>		<b><u>14</u></b>	
<i>Rite Aid</i>	<i>CVS</i>		
<i>Drug Fair</i>	<i>Thrift</i>		
<i>Super X</i>	<i>Walgreens</i>		
<b><u>Conv./Gas</u></b>		<b><u>12</u></b>	<i>(Conv. Stores)</i>
<i>Quick Chek</i>	<i>Exxon Conv.</i>	<b><u>3</u></b>	<i>(Gas outlets)</i>
<i>Hess</i>	<i>Cumberland F.</i>		
<i>Independents</i>			
<b><u>Discount Stores</u></b>		<b><u>12</u></b>	
<i>K-Mart</i>			
<i>Drug Fair</i>			
<i>Genovese Drugs</i>			
<b><u>Liquor Stores</u></b>		<b><u>5</u></b>	
<b><u>Tobacco Newstands</u></b>		<b><u>19</u></b>	
<b><u>Cigarette Outlets</u></b>		<b><u>3</u></b>	
<b>Total Marlin Stores</b>		<b><u>129</u></b>	

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# Camel Family

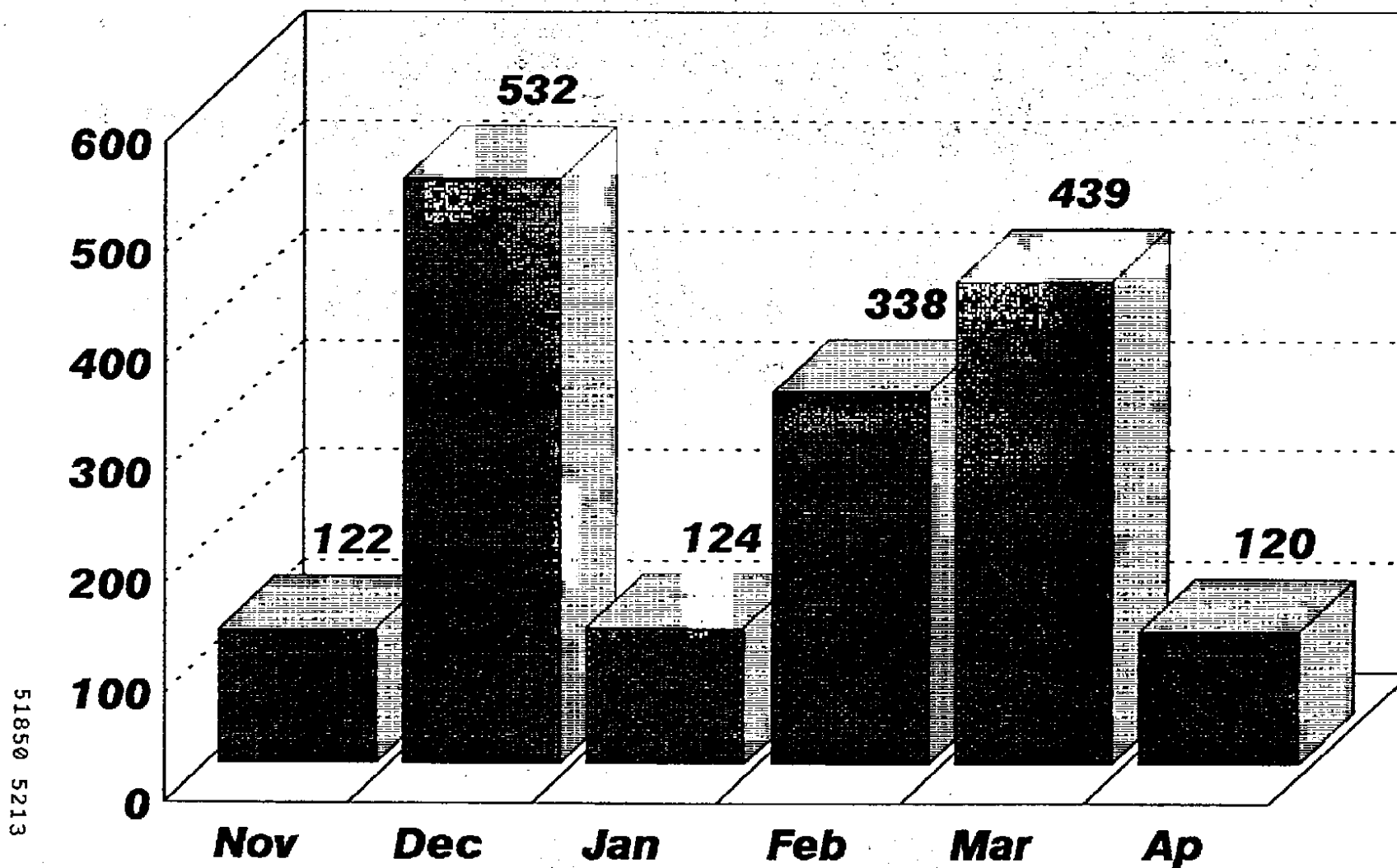
"monthly shipments"



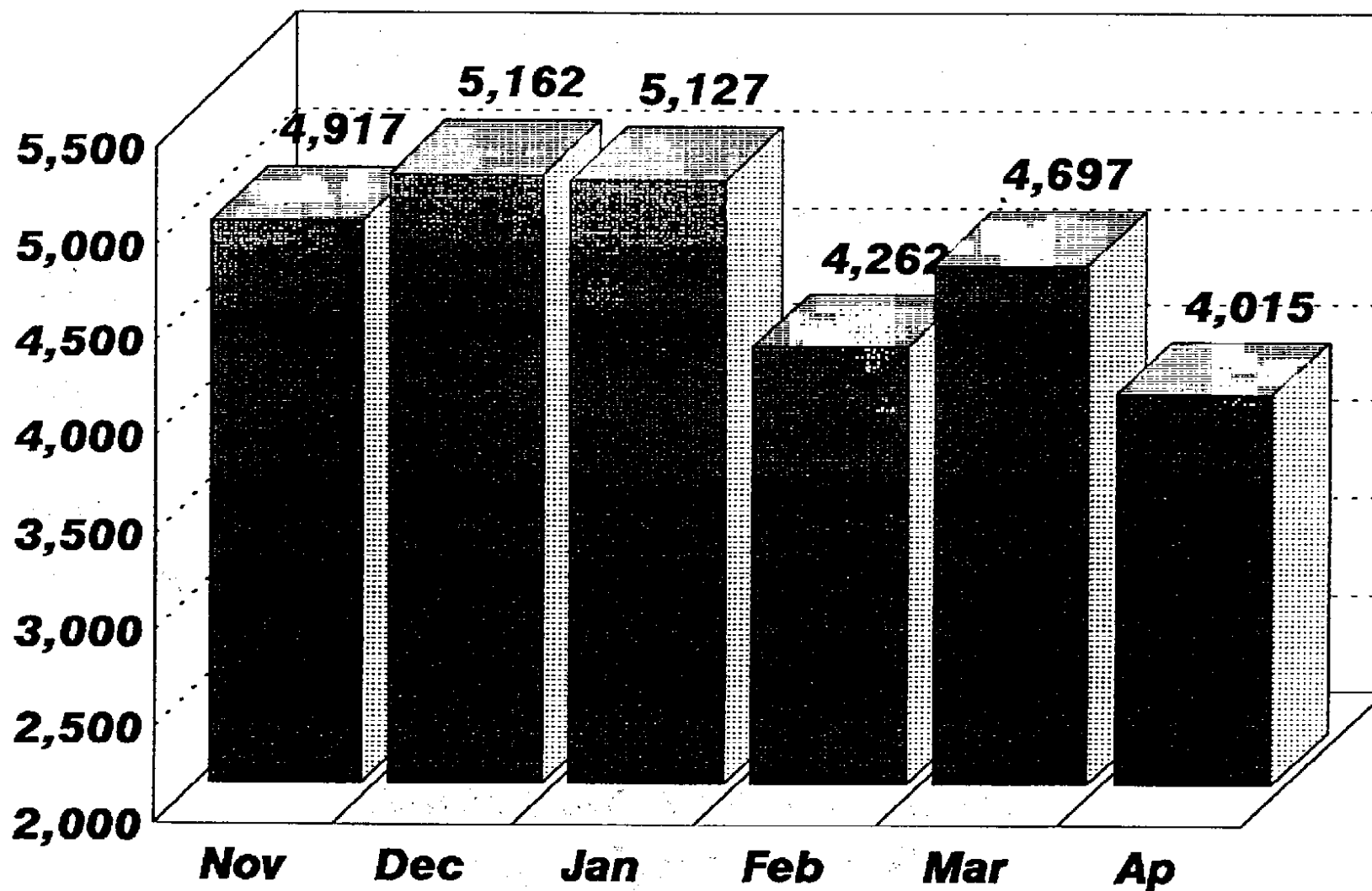
NY Metro

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## Camel Special Lights "monthly shipments"

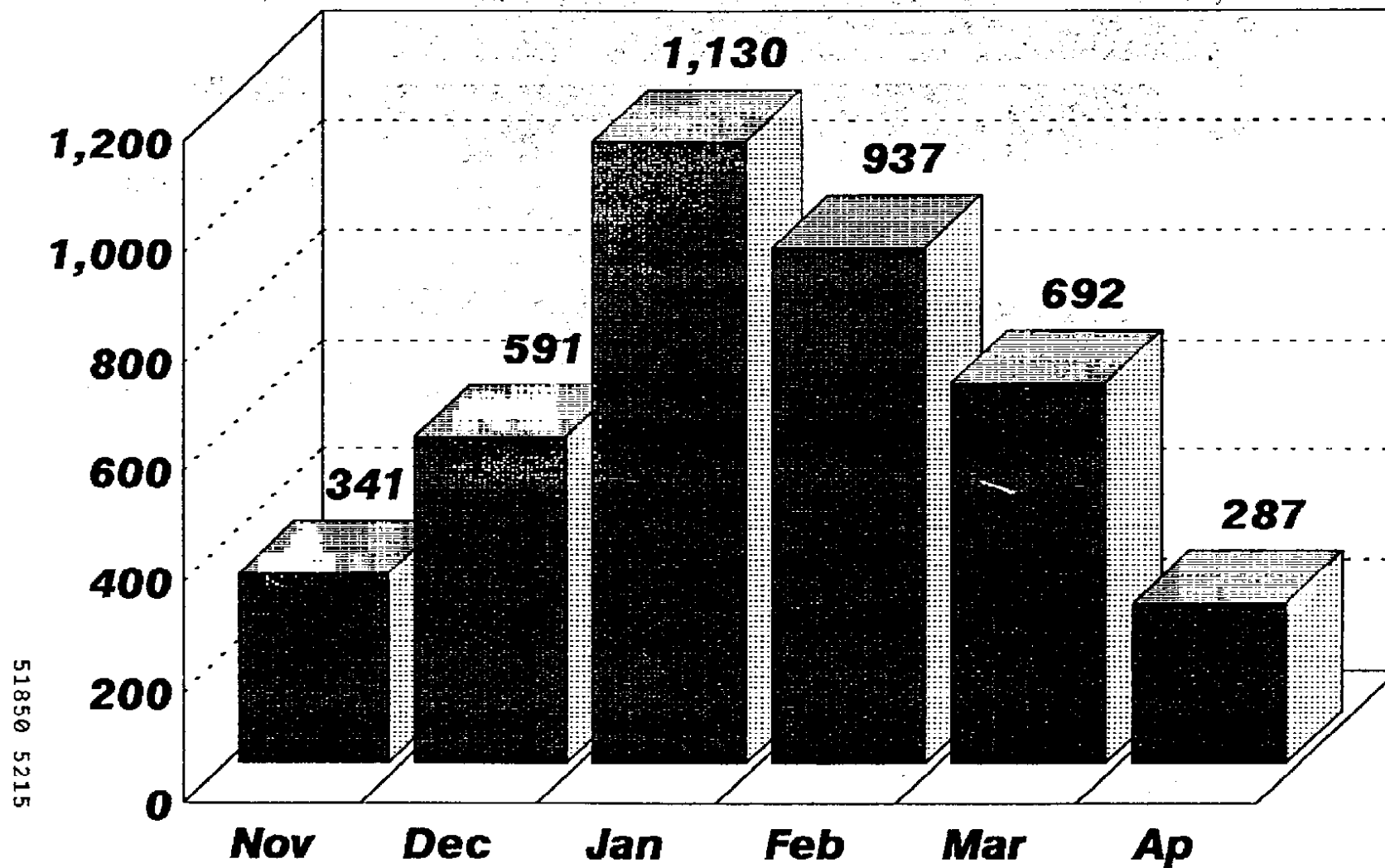


## **Winston Family "monthly shipments"**



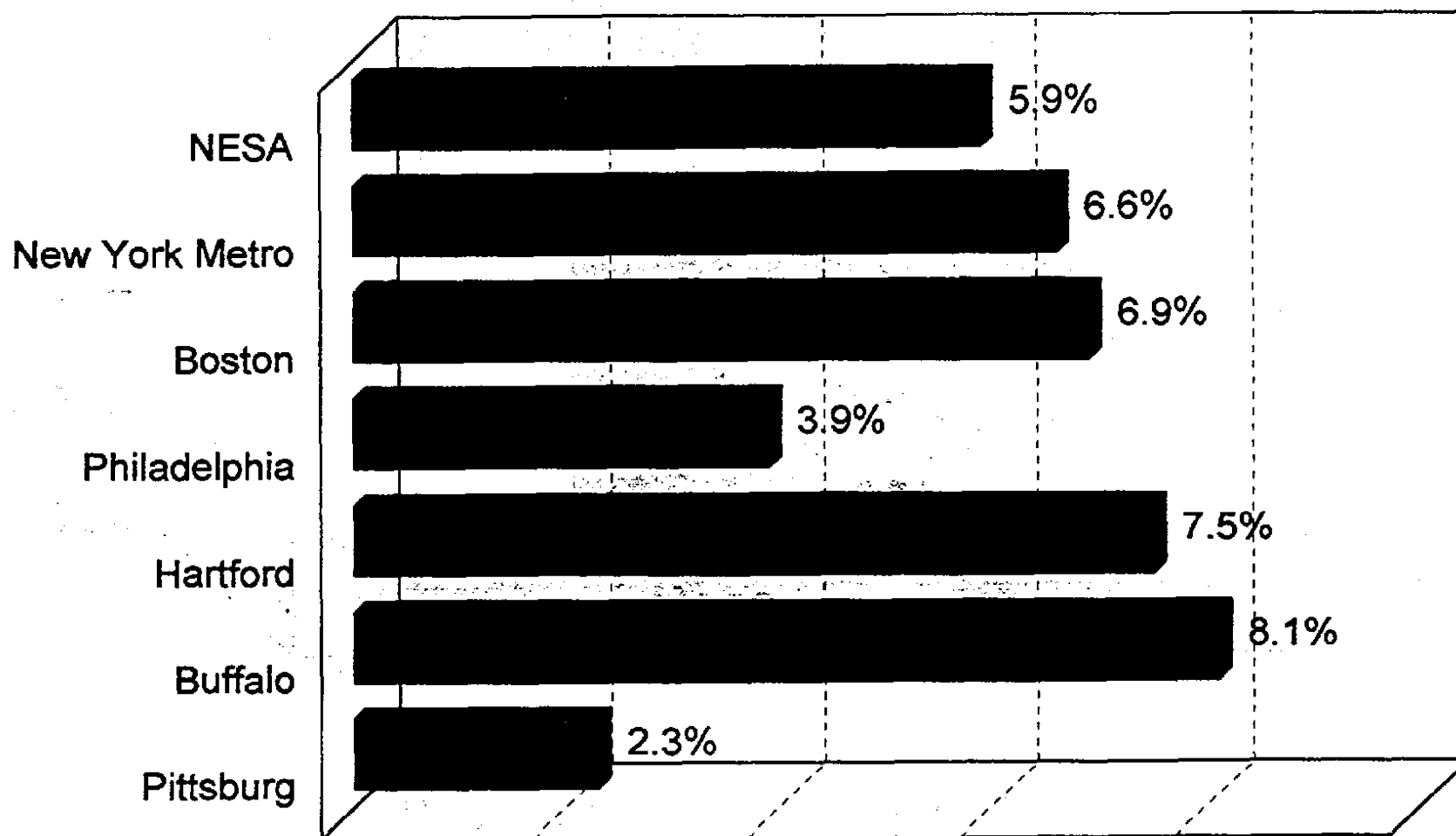
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## **Winston Select** **"monthly shipments"**



# Winston SELECT Lights

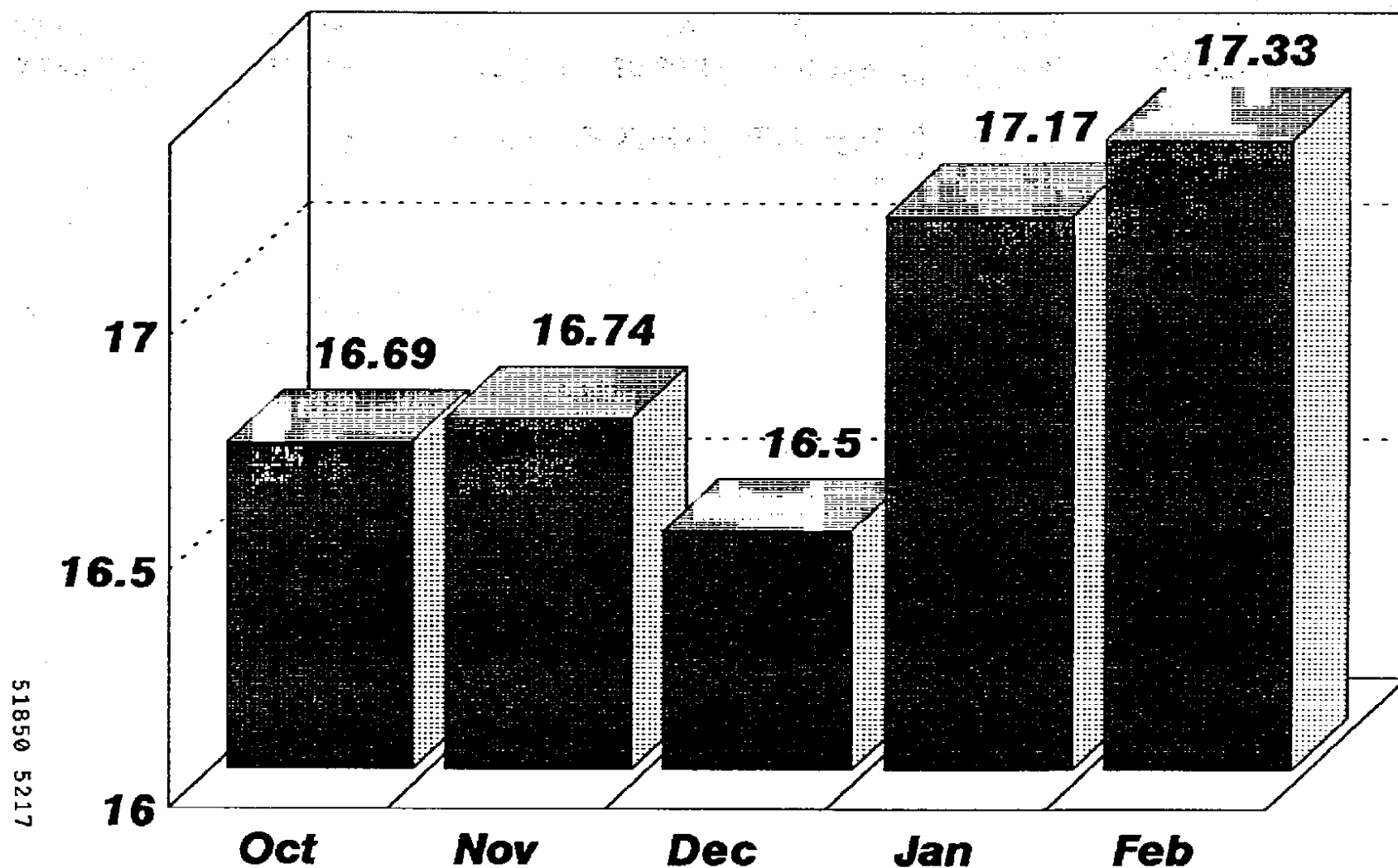
## Out-of-Stock Rate



as of May 15, 1994

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# **Marlin Full Price Share of Category "consumer take-away / NYM region"**



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**Marlin / share of Full Price Category**

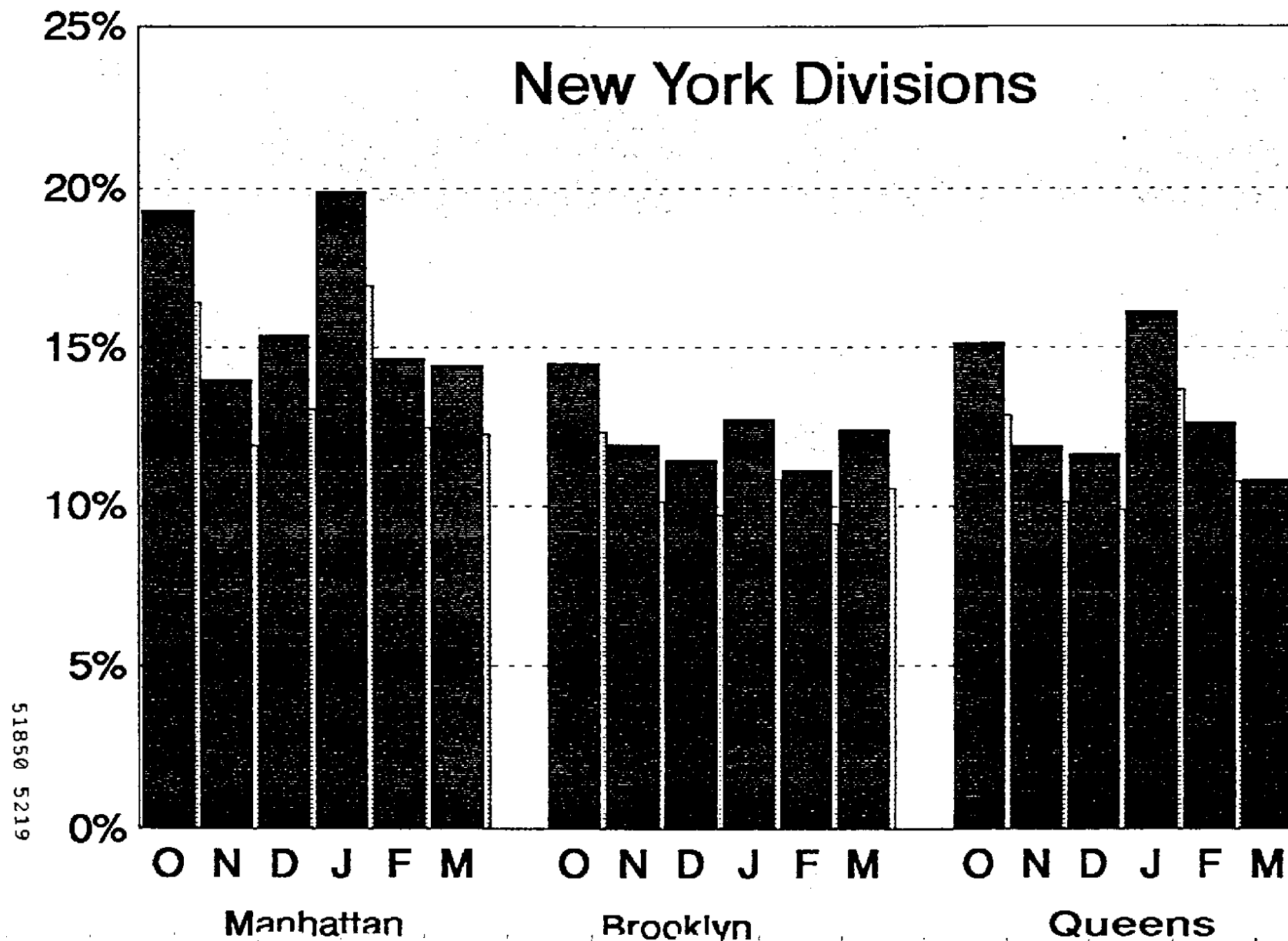
	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>
<b>Total</b>	16.78%	16.69%	16.74%	16.50%	17.17%	17.33%
<b>S/Mkt.</b>	18.18%	17.39%	17.35%	17.24%	18.83%	18.62%
<b>C/Gas</b>	17.37%	16.99%	18.90%	17.50%	17.38%	17.37%
<b>Other</b>	16.39%	16.51%	16.24%	16.18%	16.82%	17.09%

<u>Feb. 94</u>	<u>Supermarket</u>		<u>Conv./Gas</u>		<u>Other</u>	
<b>Camel</b>	2.32%	0.25%	4.92%	0.93%	3.53%	
<b>B.Winston</b>	5.33%	1.32%	4.71%	-0.79%	4.96%	-0.07%
<b>Win Select</b>	0.42%	-0.25%	0.39%	-0.53%	0.51%	0.22%
<b>Salem</b>	5.66%	-0.09%	5.15%	0.23%	5.39%	-0.61%
<b>Marlboro</b>	31.31%	0.10%	35.80%	0.65%	31.91%	
<b>Kool</b>	3.00%	0.44%	5.42%	0.01%	4.07%	
<b>Newport</b>	6.65%	0.91%	13.31%	1.17%	15.23%	0.53%

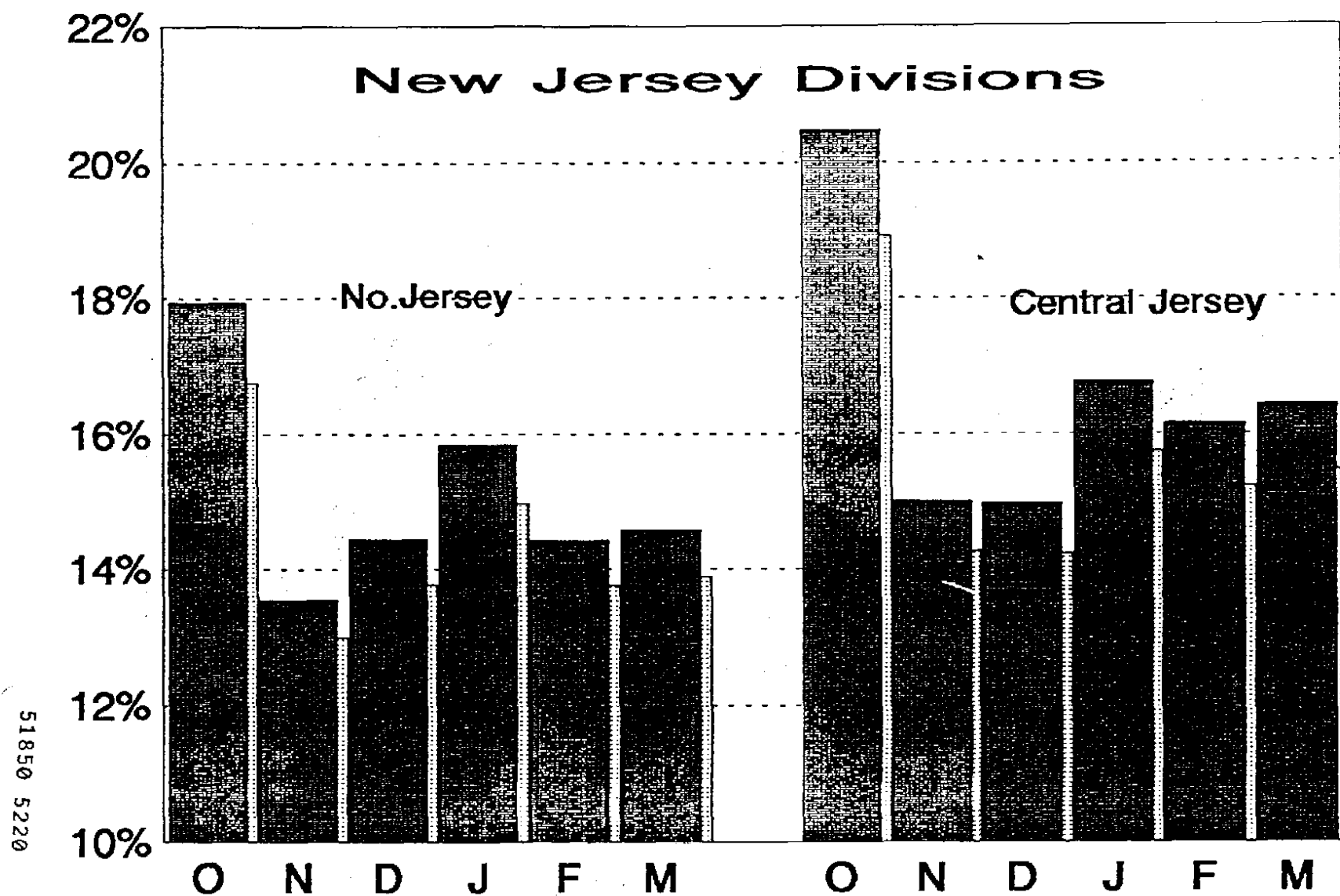
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# MSA Full Price share of Market



# MSA Full Price share of Market



**Marlin / share of the savings Category**

	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>
<b>Total</b>	28.70%	29.81%	28.96%	28.35%	25.12%	24.10%
<b>S/Mkt.</b>	25.37%	25.73%	24.36%	24.69%	24.30%	24.52%
<b>C/Gas</b>	28.16%	34.61%	41.05%	36.54%		
<b>Other</b>	22.57%	29.89%	28.18%	27.82%	23.55%	22.82%

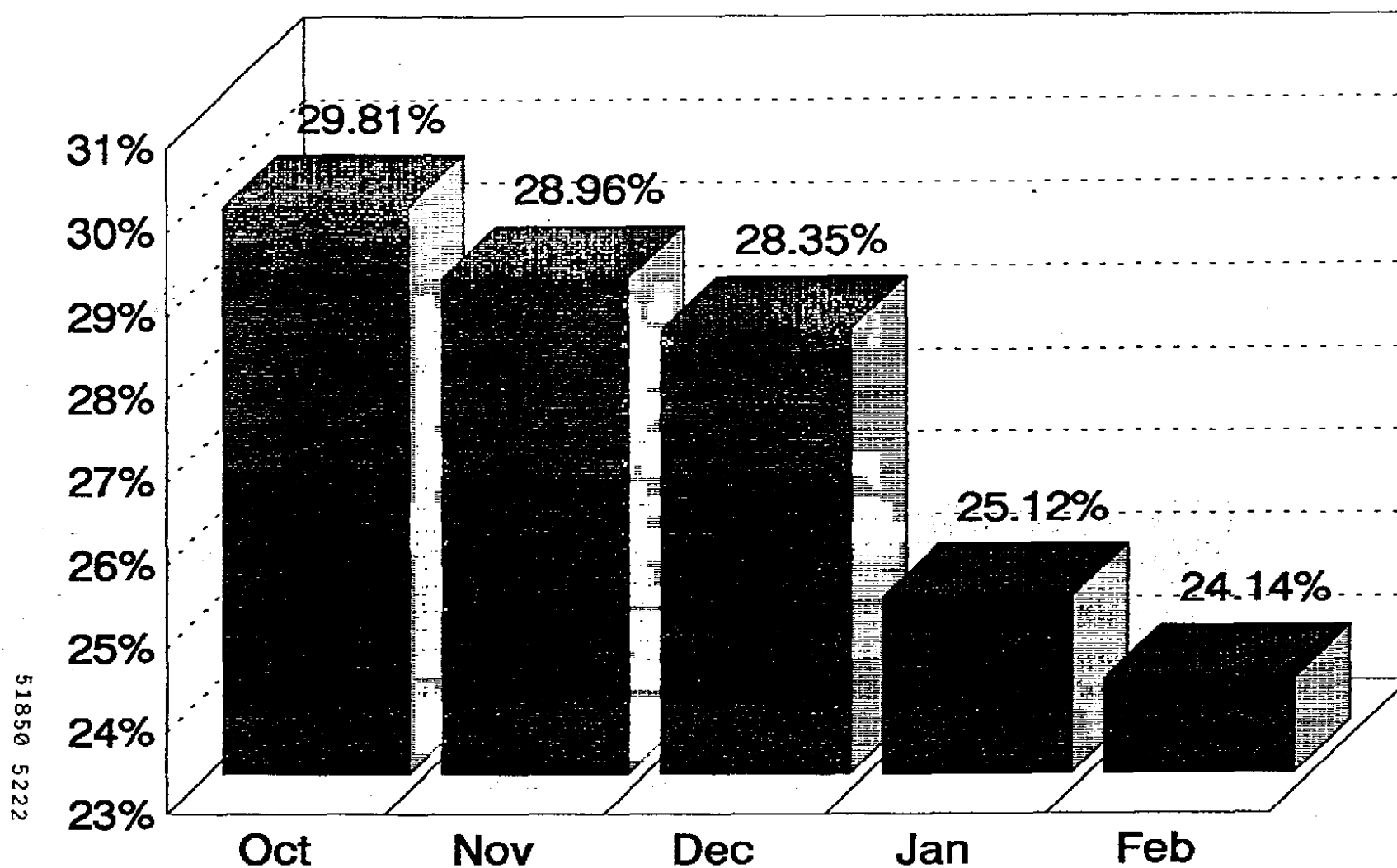
  

	<u>Supermarket</u>		<u>Conv./Gas</u>		<u>Other</u>	
<b>Feb. 94</b>						
<b>RJR</b>	24.49%		31.15%		23.27%	
<b>PM</b>	49.94%		38.64%		21.96%	
<b>B&amp;W</b>	16.51%		20.55%		28.47%	
<b>ATC</b>	8.64%		9.66%		25.37%	
<b>Doral</b>	13.38%	-17.30%	7.16%	-2.18%	11.95%	-1.88%
<b>RJR PL</b>	1.15%	6.98%			0.78%	-0.65%
<b>Monarch</b>	9.26%	2.94%	17.65%	-1.97%	17.23%	2.91%
<b>Basic</b>	13.20%	8.17%	30.72%	22.06%	1.82%	4.07%
<b>PM PL</b>	15.10%	-9.33%			0.70%	-4.38%
<b>Cambridge</b>	15.15%	-0.07%	4.36%	-4.04%	4.62%	-1.46%
<b>GPC</b>	3.92%	2.11%	8.61%	-5.32%	10.15%	
<b>Montclair</b>	1.30%	0.75%	2.01%	-0.78%	7.23%	

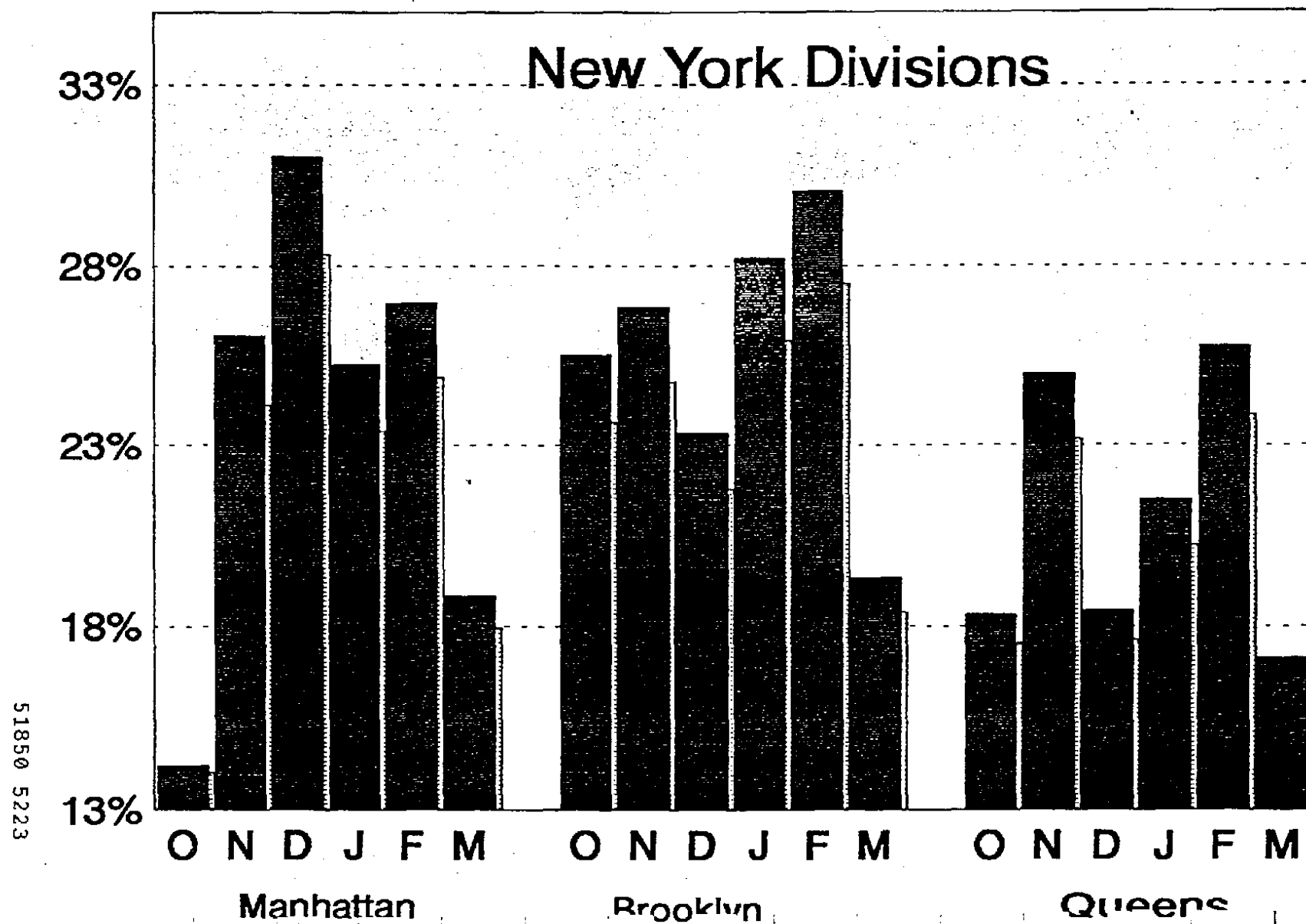
Marlin 2.xls

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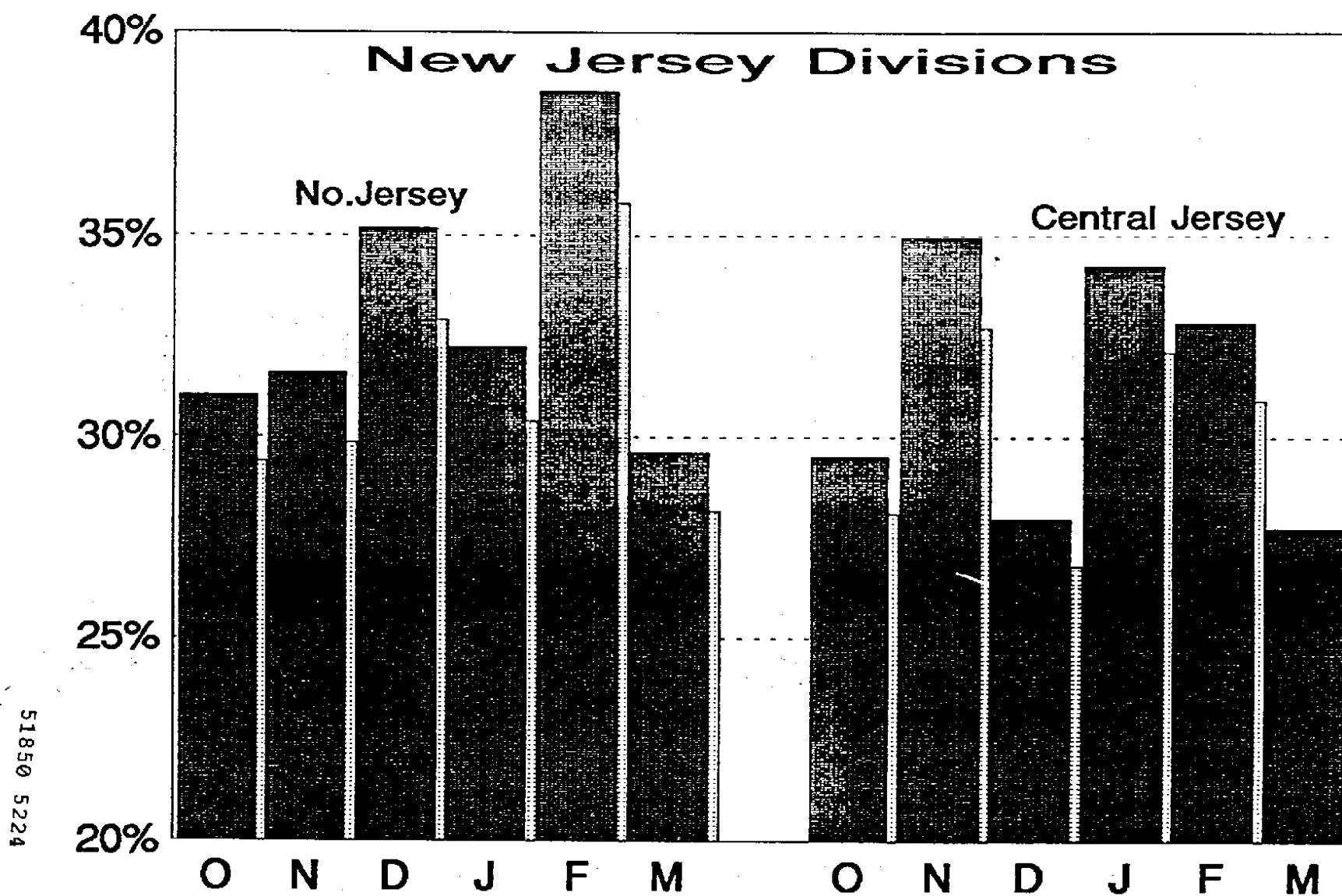
## ***Marlin Savings Share of Category "consumer take-away / NYM region"***



# MSA Savings share of Market



# MSA Savings share of Market



## Region Contrabution Statement / March YTD

	<u>Total</u>			<u>Full Price</u>			<u>Savings</u>	
	SMC per ctn.	Contrabution per ctn.		SMC per ctn.	Contrabution per ctn.		SMC per ctn.	Contrabution per ctn.
<b>Boston</b>	\$1.16	\$3.47		\$0.58	\$5.01		\$1.35	\$1.50
<b>New York M.</b>	\$1.13	\$4.14	(#1)	\$0.37	\$5.22	(#1)	\$2.15	\$0.70
<b>Philly</b>	\$1.08	\$3.31		\$0.57	\$5.02		\$1.37	\$1.48
<b>Hartford</b>	\$1.22	\$3.41		\$0.54	\$5.04		\$1.09	\$1.76
<b>Buffalo</b>	\$1.08	\$3.02		\$0.59	\$4.99		\$1.15	\$1.70
<b>Pittsburg</b>	\$1.04	\$3.21		\$0.63	\$4.98		\$1.16	\$1.69
<b>NESA</b>	\$1.11	\$3.36		\$0.55	\$5.04		\$1.25	\$1.60

### SMC (Sales & Marketing Costs):

Coupons / VPR's  
Temp. Displays  
Premiums  
POS / PDI

Co-Marketing funds  
Contract Payments  
Fixture costs  
Selling Expenses

Salary  
Fringe  
Auto expenses

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## **Z99 Calls**

**"Opportunity or Worthless?"**

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	<i>Total Z99's</i>	<i>Z99's with Overheads</i>	<i>Z99's with Sp.Loads</i>
<b>Manhattan</b>	<b>3,411</b>	<b>93</b>	<b>10</b>
<b>Brooklyn</b>	<b>2,366</b>	<b>202</b>	<b>35</b>
<b>No.Jersey</b>	<b>1,378</b>	<b>132</b>	<b>9</b>
<b>Queens</b>	<b>2,376</b>	<b>159</b>	<b>17</b>
<b>Cent.Jersey</b>	<b>2,758</b>	<b>227</b>	<b>71</b>
<b>NY Metro</b>	<b>10,432</b>	<b>813</b>	<b>142</b>

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